

DIXIE DAIRY REPORT

June 2019

Demand for dairy products. First quarter demand for dairy products (domestic and export), on a total solids basis, is almost the same as the first quarter of last year. However, domestic demand is up a strong 2.4% while export demand is down 12.4%. First quarter domestic demand is a new record high. Even though export demand is down compared to last year, it is still higher than 2017, and is the third highest on record. Lower export demand is primarily due to dry whey exports down 31% and whey protein concentrate exports down 43%. The African swine flu in China and now spreading to other parts of Asia is negatively impacting the whey market. Whey is a major part of the swine ration.

DAIRY DEMAND (1st quarter 2017, 2018, and 2019) – Total Solids Basis

	2017	2018	2019	Change 19 vs. 18
(million lbs.)				
Domestic Demand	5,914.4	5,986.6	6,129.1	2.4%
Export Demand	953.2	1,127.1	987.4	-12.4%
Total Demand	6,876.6	7,113.7	7,116.5	0.04%
Export % of Total	13.9%	15.8%	13.9%	

Fluid milk sales. Total fluid milk sales, for the first quarter of 2019, are 2.4% lower compared to the first quarter of 2018. Conventional sales, alone, are down 2.2%, while organic is 4.5% lower than a year earlier. It appears plant based products are having a greater impact on organic milk sales. The decline in fluid sales continues to be low fat and skim milk. Whole milk sales are unchanged from last year while flavored whole milk sales are up 25%.

In the three southeastern orders combined, fluid sales during the first quarter of the year are 3.7% lower than a year ago, as seen in the table below. Even though Florida sales are only down 0.9%, sales from plants regulated under the Florida order are down about 2% while sales from plants outside of the order are up over 2.5%.

SOUTHEASTERN ORDERS FLUID MILK SALES (1st quarter 2017, 2018, and 2019)

Order	2017	2018	2019	Change 19 vs. 18
(million lbs.)				
Appalachian	816	827	795	-3.9%
Florida	716	705	699	-0.9%
Southeast	1,135	1,111	1,052	-5.3%
Total	2,667	2,643	2,546	-3.7%

Milk production. April milk production is up 0.1% compared to last April. USDA reports 90,000 fewer cows this April versus last April. April dairy cattle slaughter was 7.9% higher than last April. For the year to-date, dairy cow slaughter is up 5.7%. In the 23 reporting states, production was up in 11 states, down in 11 states, and no change in one state. Texas continues to lead the way with higher milk production, up 6.7%. In the top two dairy production states, California and Wisconsin, April production was up 2.6% and 0.4%, respectively.

Southeast production. Of the 23 reporting states, Virginia continues to lead the way in declining production, down 11.0% in April. Production continues to decline in Florida as well, with April production down 5.5%. Virginia reports 9,000 less cows compared to last year, while Florida reports 7,000 fewer head.

Looking at federal order data, through the first four months of the year, total producer milk in the three southeastern federal orders is 6.8% lower than the same period last year. Most of the production decline is in the Appalachian and Southeast orders. Total producer milk, utilized in Class I, is 4.7% lower than a year ago. Combined Class I utilization is 72.5% through April, compared to 70.8% last year.

A number of factors point to milk production continuing to decline not only in the Southeast, but in many other parts of the country. These factors include: low margins, less dairy cows as the result of more cows going to slaughter and more cows being bred to beef bulls, historically high number of dairy farms exiting the business, and weather challenges impacting the feed supply. Lower Southeast milk production resulted in a less challenging “flush” season this year. However, when August comes, due to less milk production, expect the opposite; a greater challenge in procuring supplemental milk.

Dairy product prices. Butter, cheese, and nonfat dry milk powder (NFDM) continue to advance. May is the first time the nonfat dry milk powder (NFDM) price has exceeded \$1.00/lb. since January 2017. Reports indicate NFDM should continue to move higher. Cheese is at its highest price since February 2017. *Dairy Market News* reports current cheese market tones as “wobbly”. The block to barrel spread has increased to over \$0.20/lb. First quarter American cheese and other cheese disappearance is down 0.5% and 1.1%, respectively. Butter continues, as it has for over a year, trading in a narrow range. Butter imports, which are up 35% during the first quarter, are holding back further butter price increases.

DAIRY PRODUCTS SALES REPORT PRICES and CLASS I MOVER

<u>Product</u>	<u>May 2019</u>	<u>April 2019</u>	<u>May 2018</u>	<u>May 2017</u>
(\$/lb.)				
Butter	\$2.2952	\$2.2669	\$2.3382	\$2.1644
Cheese (block & barrel)	\$1.6974	\$1.6468	\$1.6353	\$1.5390
Nonfat Dry Milk Powder	\$1.0149	\$0.9641	\$0.7937	\$0.8704
Dry Whey	\$0.3784	\$0.3923	\$0.2711	\$0.5094
(\$/cwt.)				
	<u>June 2019</u>	<u>May 2019</u>	<u>June 2018</u>	<u>June 2017</u>
Class I Mover (3.5% fat)	\$17.07	\$16.42	\$15.25	\$15.31
Class I Mover (2.0% fat)	\$13.35	\$12.74	\$11.43	\$11.89

Blend prices. For the first time in 18 months the Class I Mover exceeded \$17.00 in June. Without the new Class I Mover calculation, the June Mover would have been \$0.80/cwt. lower. May blend prices are projected \$0.50 to \$0.60/cwt. higher than April. For all of 2019 we now project blend prices to average \$1.75 to \$2.00/cwt. higher than 2018.

PROJECTED BLEND PRICES–BASE ZONES – SOUTHEASTERN FEDERAL ORDERS

<u>Month</u>	<u>Appalachian</u>	<u>Florida</u>	<u>Southeast</u>
(\$ /cwt. 3.5% butterfat)			
April (actual) 2019	\$18.28	\$20.46	\$18.70
May	\$18.99	\$21.04	\$19.24
June	\$19.68	\$21.54	\$19.84
July	\$19.55	\$21.50	\$20.12
August	\$19.89	\$21.85	\$20.43